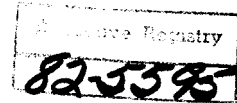


Central Intelligence Agency



Washington, D. C. 20505



DDI #6262-82

29 July 1982

MEMORANDUM FOR: Dr. Ivan Selin
Chairman, Military-Economic Advisory Panel

FROM : Deputy Director for Intelligence

SUBJECT : Soviet Military Economic Analysis

1. At my meeting with the MEAP in May, I described my concerns about the reliability and use of the analysis of Soviet defense expenditures carried out by our Office of Soviet Analysis. I indicated my intention to have a thorough review of this general area as a means to determine whether the effort should be continued in view of its controversial work and the cost of that work.

2. I have reviewed the memorandum you sent to the Director of Central Intelligence in June 1981 in which you set forth your concern over the reliability of the estimates because of inflation and growth in the Soviet defense sector, major problems in estimating Soviet defense spending in ruble terms, problems relating to significant changes as prices are updated and so forth. You also mentioned in your report of June 1980 that you had heard an interesting report by a DIA representative detailing alternative estimates of the Soviet defense budget and the effects of inflation. You urged a coordinated CIA/DIA effort to analyze changes in the Soviet military and civilian price levels.

3. I believe the time has come to proceed with the review I mentioned to you last month and I believe that several members of the MEAP would form the appropriate core of a committee to carry out this investigation. At minimum, such an effort might include Bob Campbell, Abe Becker, Vlad Trembl and yourself. I believe the committee also should include someone from the Department of Defense who uses this material and also someone from oversight committees who has some understanding of it -- perhaps Dr. Steve Flannigan who I understand has devoted some attention to this area. I believe such an examination should include a review of work that DIA has undertaken to see where the differences are both in methodology and in conclusions. Additionally, perhaps a noted econometrician -- perhaps Kenneth Arrow of Stanford or Martin Shubik of Yale -- could participate. I further propose a hard look at the overall value of the work being done in this area by SOVA with special attention to the question whether the uncertainties are so great that our means of presentation needs to be

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significantly modified in order to prevent misuse. More radically, I believe we need to look at whether the uncertainties underlying this work are so great that in publishing at all we are doing a disservice to the policymakers, the Congress and the country.

4. I would appreciate the opportunity to meet with you to discuss this further. I am leaving soon on vacation, but will have my secretary call to arrange a meeting in early September.



Robert M. Gates

STAT

bcc: DCI
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